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C O R R E C T E D C O P Y //CORRECTED REFS A, B, C//

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SUBJECT: 36TH UNHCR STANDING COMMITTEE - PROGRAM BUDGETS
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[1](#)C. GENEVA 557

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[1](#)1. (U) Summary. The Deputy High Commissioner, the Controller and the head of External Relations provided a briefing to member states on UNHCR strategies to meet the current budget crisis. Member states were frank in their remarks to UNHCR, sometimes highlighting the organization's shortcoming on budget matters. Most expressed their concern over the capping issue, and said they wanted to see UNHCR prioritize rather than continue cuts across the board. Members stressed the need for UNHCR to provide updates on its financial situation and said that more strategic thinking on the budget was needed. Member states also recognized that flexibility on contributions will help support timely assistance to refugees. On the IDP issue, member states asked for more clarification on UNHCR's budget for the pilot countries and cautioned against adding responsibilities under the cluster approach that would further strain its financial situation. End Summary.

Budget Discussion - Recap of 2005
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[1](#)2. (U) Deputy High Commissioner Wendy Chamberlin and Controller Saburo Takizawa made a joint presentation of the current state of UNHCR's budget, painting a frank picture of UNHCR's financial crisis and emphasizing the fact that for the first time ever, UNHCR began the calendar year with depleted reserves for its Annual Program Budget (AB). As previously reported, UNHCR realized mid year in 2005 that it was going to have financial difficulties and relied on a number of measures to reduce the pain. These included shifting funds across programs based on its mid-year review

capping, and spending reductions across the board to reduce funding requirements. UNHCR's financial situation was nonetheless grim at the end of 2005, and the organization imposed more cutbacks late in the final quarter and borrowed US\$ 12.1 million from the working capital fund to support its operations.

13. (U) UNHCR has paid back the loan in 2006, and is looking at a number of financial reforms to support continuing operations. Chamberlin repeated the High Commissioner's mantra that UNHCR needs to change its way of doing business, because its current structure is financially unsustainable. She emphasized obvious contradictory results over the years, such as staff costs overtaking operational costs as a direct result of putting staff on indefinite contracts. On a more positive note, the approximate ratios on program, program support and management and administration budgets have more or less in the past five years balanced out. However, external factors such as the fluctuations in the exchange rate, combined with fixed cost rigidities, have made it impossible to obtain 100% support of the budget.

Making Difficult Budget Decisions in 2006 and Beyond

14. (U) Unfortunately, UNHCR is still in a financial crisis and is trying to maintain a precarious balance of waiting for donor contributions while making sure that contributions received early in the year are not prematurely liquidated. In response to members' requests for regular budget updates, the High Commissioner, during his recent meetings with representatives from UNHCR's major donor countries, had promised to provide monthly financial reports. Other factors for the 2006 financial crisis include the large number of programs in the Supplementary Program Budget (SB), the absence of carryover funds from the previous year, and the addition of the Burundi and Chad budgets (formerly SBs) into

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UNHCR's annual program budget (AB) making the 2006 AB USD 163.7 million larger than the 2005 budget.

15. (U) Chamberlin noted that obtaining "fresh funds" from donors is a challenge and pressed member states to give UNHCR as much as possible this year. She said that things are so bad that capping the budget, customarily done at the end of the year, has been imposed in the beginning of 2006 in order to prevent painful cuts later. Some of the programs affected by the early capping of 20% include the headquarters' budget, staff travel, training and seminars. Despite this, UNHCR still has a sizeable shortfall. The DHC stressed that UNHCR's way of doing business must change to meet these realities and mentioned the headquarters and field review that will look for a more flexible workforce strategy. She ended her presentation with a bleak statement that UNHCR may also face a difficult year in 2007.

16. (U) Many members asked that UNHCR keep them informed of the situation and the USDEL asked that a new paragraph calling for UNHCR to keep donors informed of its financial situation be inserted in the draft decision on the budget. Others, such as Australia and the UK, said that if further cuts were needed, it expected UNHCR to clearly prioritize its activities rather than implementing across the board cuts and asked UNHCR to keep EXCOM members informed of how it expects to prioritize. Chamberlin agreed that the capping is not the optimal choice for responding to the financial crisis, which UNHCR is making a top priority for the financial review that will focus on plans to strategize and prioritize. In the instructions for the country operations planning exercise, UNHCR has asked its mission representatives to use UNHCR's strategic objectives to look at their needs assessments and plan programs that will be in line with results based management. Takizawa said that there was a broad consensus that UNHCR should be transparent and that UNHCR is amenable to present a briefing on the financial picture and budget at

any time.

Changing the Approach on Fundraising

17. (U) The director of External Relations, Anne-Willem Bijleveld, told members that 2005 had been a challenging year in terms of fundraising but was marked by positive outcomes such as the improvement in the timing of contributions. In response to previous criticism from EXCOM members on incentive based funding, Bijleveld said that it was crucial that country representatives get involved in raising funds, particularly from private donors. He added that field missions will also help UNHCR get funds from the Central Emergency Response Fund (CERF). He acknowledged that the office of Donor Relations is not able to obtain full funding of the budget on its own, so UNHCR must look at other means as well and is looking at private sector fundraising in Asia, Africa, the Americas, and Europe. UNHCR is hoping to get the overall investment level to the same one to four ratio applied to WFP and UNICEF on the private sector funding. Sweden responded that local fundraising has its advantages and that country representatives have to seize the opportunities to get additional funding, particularly on CERF and pooled funding. However, Sweden added that it expects UNHCR to have a more diversified fundraising strategy, focusing on private sector fund raising, and would like to see UNHCR develop clear guidelines on diversified fundraising. Norway also encouraged UNHCR to expand its very limited donor base.

18. (U) Bijleveld updated members on UNHCR's plans to possibly charge a seven percent overhead on programs funded under the Operational Reserve II (ORII) budget. He said that UNHCR will ask the evaluators of the ORII to look at this issue and

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draft a report for the next SC meeting. (Note: This initiative was announced at a February meeting of UNHCR's top donors, where the USG noted its dissatisfaction with the suggestion of charging an overhead, saying that the ORII is part of the AB and it was not logical to charge an overhead on a program which should be serviced from within this budget.) Bijleveld urged members to do as much as possible to help UNHCR in reaching its funding goal. Canada, France and Spain all announced forthcoming contributions to UNHCR. Spain's contribution of 25 million Euro is a marked increase in its usual core contribution. Japan announced that its support for UNHCR is under deliberation but expected its contribution to be around USD 55.5 million. Japan may make additional contributions on a project-by-project basis and said it is also considering a USD 2.1 million contribution for resettlement and reintegration of Liberians in Liberia. The USDEL said that the USG believed its 2006 funding to UNHCR will be the same amount as last year, but will not be able to meet the same percentage.

Questions from the Floor

19. (U) Most speakers expressed their concern over UNHCR's current financial crisis, commented that the conference paper did not accurately reflect the situation and asked for more details on the actual impacts on UNHCR's programming. Chamberlin responded that the 20% cap affected budget items that did not directly impact tangible benefits for refugees. However, programs such as preparations for repatriations, income-generating and vocational training, reintegration and return monitoring are affected, as are capacity building, refugee status determination, training of government partners, environmental programs and AGDM training. Press and information, public affairs, Refugee Day events, community services and education grants have also been cut. Chamberlin added that if UNHCR embarks on further cuts, it will be difficult to avoid actions that will directly affect the refugees.

¶10. (U) Algeria, on behalf of the African Group, said that earmarking by donors during this time would increase the funding gap in certain programs, particularly in North Africa. The delegate emphasized that UNHCR's programs are too important to have this funding problem, which undermines the credibility of the institution. He urged more burden-sharing among countries in order to alleviate the pressure on refugee hosting countries. Pakistan asked if the funding shortage will effect emergency situations. Other countries asked if exchange rate pressures or increases in expenditures had an effect on the funding caps and requested a comparison on how the fluctuating exchange rates affected other UN agencies. Takizawa responded that the financial crisis is not only based on the fluctuating exchange rate, but that it is part of the entire picture that has caused problems for UNHCR. He asked members to put things in perspective. Canada cautioned that being the "agency of last resort" in the IDP cluster approach also posed an additional financial risk to UNHCR and urged the organization to move slowly before adding other countries under their responsibility. Sweden, the USDEL and others supported Canada's comments.

¶11. (U) The Netherlands expressed concern that since EXCOM approval of the 2006 AB, UNHCR has approved USD 294.5 million worth of SB programs. Sweden would have preferred if UNHCR had used the CERF to support these programs. Sweden commented that IDP programs, such as Somalia, Nepal, and Colombia, should not be reflected in the SB since they are not new programs. Sweden and the USDEL asked for a clear account of what UNHCR needed for the three pilot countries under the cluster approach. Australia expanded on this and

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asked UNHCR to explain where the money for the cluster approach, as is outlined in the "Cluster 2006 appeal" goes in UNHCR's operational budget. Bijleveld deferred to the Bureau heads to respond to the IDP budget questions but noted that the USD 4.3 million for the three pilot countries are not for operational support in the three countries but for UNHCR to fulfill its role as cluster lead - staff salaries are included in this figure. He added that the issue of "agency of last resort" is an important issue and does not mean that UNHCR will have to divert money from refugee programs, but needs to make the extra effort to find the money. He described the "agency of last resort" as a catalytic role.

Discussing the Situation with UNHCR
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¶12. (U) As was apparent from the discussion at the SC meeting (and from previous meetings and discussions), UNHCR is still trying to work out what it needs to do to respond to this financial crisis. During a February meeting with Ambassador Moley, High Commissioner Guterres said that UNHCR is in the midst of a major reform to improve its response to protection of refugees by decreasing its costs, reducing staff at HQ by outsourcing some of its specialized units, and working more with NGO partners. He also mentioned the need to strengthen UNHCR's relationship with UNDP and the World Bank to get them involved earlier in refugee reintegration efforts. He said that UNHCR must do better in terms of looking at the exchange rate issue and is working on increasing funding from Gulf States and private corporations.

¶13. (U) In a follow-up conversation with Mission Officer, the Controller said that, if the AB is 80% funded by donors, UNHCR would be working with a shortfall figure of some \$60 million for 2006. The High Commissioner has approved a plan to try to address the shortfall by dividing it into three parts. He hopes to address the first USD 20 million shortfall through funding from the CERF and has asked the Bureau heads to see which of their programs would benefit from these possible grants. The second USD 20 million would come from cuts at headquarters and the final USD 20 million

would be saved through targeted cuts in administrative and project support costs. The High Commissioner has refused to make additional cuts across the board, and has asked the field to prioritize programs. There are disagreements at headquarters whether or not this is a good move; some of the staff believing that Guterres is taking enormous risks not cutting across the board. US Mission Geneva will continue to discuss the situation with UNHCR and push, like other donors, for UNHCR to come up with clear guidelines to help the field make their decisions.

Moley